Underinvested in Tech Stocks? Try These 3 Portfolio-Fillers

Description

Investors in the TSX index may be underinvested in tech stocks, in part because of the FAANG stock bloodbath of late 2018, and in part because of a need to pack portfolios with defensive tickers. But could increased tech exposure offer defence through diversification? Let's discuss three of the most popular Canadian tech stocks and see which of them might be best suited to a portfolio that's overly weighted by banking, utilities, and miners.

How about this headline-friendly heavy-hitter?

A mainstay of the tech sector of the TSX index, **BlackBerry** (TSX:BB)(NYSE:BB) saw a one-year past earnings drop of -91.3%, thereby overshadowing a five-year average past earnings growth of 67.7%. Do planned innovations in a coming tech revolution make up for a bad year? An expected drop of -108% in earnings over the next one to three years suggests not, counting out this stock out for growth investors right now.

An acceptable debt level of 26.4% of net worth does mean that the risk-shy investor may have at least one reason to buy and hold, though the upside appears to be missing – unless BlackBerry can prove to be a market leader in the Enterprise of Things (EoT), which would see its fortunes soar. However, val uation is still high, with a P/E of 135.5 times earnings, so maybe wait and see.

Are other Canadian tech stocks a better buy?

Consider the data for two other big Canadian tech stocks. **Constellation Software** (TSX:CSU) is trading at a 17% discount with an expected three-year ROE of 68.5%. Its past year ROE has been 39%, which is significantly high for the TSX index, let alone the tech industry. A one-year past earnings growth of 30.7% shows how good a year Constellation Software had, and exceeds even its own 22.9% five-year average.

However, things get a little sticky here on in: a debt level of 56% of net worth is a shade high, and valuation is poor, with a P/E of 55.8 times earnings and high P/B ratio of 21.6 times book. While dividends are on offer, at 0.55%, the yield is low. Meanwhile, Constellation Software's expected annual growth in earnings is 14.1%, which would be positive in any other stock, but here represents a slowdown from recent growth levels.

How about **Descartes Systems Group** (TSX:DSG)(NASDAQ:DSGX)? This mainstay of Canadian tech stocks has a 24.7% expected annual growth in earnings on the way, which improves on its one-year past earnings growth of 14.2% as well as its five-year average of 18.9%. Though its P/E ratio of 78.3 times earnings is higher than Constellation Software's, Descartes Systems Group has a lower P/B of 4.5 times book. Its debt level is also lower, at 9.7% of net worth.

The bottom line

If you don't mind holding a tech stock that's not a dividend payer (and let's face it, that's not really what tech stocks are for), you may want to go for Descartes Systems Group. Never mind that it's overvalued by 25% of the future cash flow value – this stock has the best overall mix of growth, past performance, and market fundamentals. While it's not the highest growth on the TSX index, this mix of attributes makes it one of the best Canadian tech stocks, and a strong pick for exposure to that industry.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. NYSE:BB (BlackBerry)
3. TSX:BB (BlackBerry)
4. TSX:CSU (Constellation Software Inc.)
5. TSX:DSG (The Descartes Systems Group Inc)

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